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PORTIONS DENIED AS INDICATED

DEPARTMENT OF STATE A/CDC/MR
REVIEWED BY J DATE 8/7/81
PORTIONS DENIED AS INDICATED

C O N F I D E N T I A L TRIPOLI 2171

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NOFORN

SUBJECT : OCCIDENTAL POSTED PRICE SETTLEMENT

REFERENCE: TRIPOLI 2136 (NOTAL)

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1. [redacted] B4

A. POSTED PRICE - OXY SIGNED AGREEMENT SEPTEMBER 3 WITH MINPET MABRUK, ACTING UNDER RCC AUTHORIZATION, TO INCREASE POSTED PRICE BY 30 CENTS PER BARREL TO $2.53 FOR 40 DEGREE CRUDE AND TO RAISE POSTED PRICE BY ADDITIONAL 2 CENTS ANNUALLY FOR NEXT FIVE YEARS BEGINNING JANUARY 1, 1971.

B. GRAVITY ADJUSTMENT - POSTED PRICE TO BE 2 CENTS HIGHER PER DEGREE OF API GRAVITY FOR EACH DEGREE ABOVE 40, AND ONE AND ONE-HALF CENTS LOWER PER DEGREE FOR EACH DEGREE BELOW 40. (THIS IS A SIGNIFICANT BREAK WITH MIDDLE EAST OIL INDUSTRY PRACTICE OF INCREASING POSTED PRICE 2 CENTS PER DEGREE FROM 24 DEGREES TO CEILING AT 41 DEGREES, AND LOWERING PRICE BY TWO AND ONE-HALF CENTS PER DEGREE BELOW 24 DEGREES. PRICE STRUCTURE IN LIBYA HAD BEEN GENERALLY DETERMINED BY THIS PRACTICE.)

C. TAX RATE - INCREASE IN INCOME TAX RATE FROM 50 TO 58 PER CENT, INCLUDING 5 PERCENT OF INCOME OXY WAS OBLIGATED TO CONTRIBUTE TO AGRICULTURAL DEVELOPMENT.

D. RETROACTIVITY - OXY HAS AGREED WITH LARG NOT TO REVEAL DEGREE OF RETROACTIVITY.

E. QUIDS - OXY PRODUCTION ALLOWABLE RAISED TO 700,000 B/D FROM 425,000 B/D EFFECTIVE SEPTEMBER 4. NO OTHER QUIDS, NOT EVEN QUIT CLAIM FOR PAYMENTS SINCE 1965, OBTAINED.

2. EMBASSY ESTIMATES OXY'S PRICE AND TAX RATE TERMS HAVE INCREASED ITS PAYMENTS TO LARG BY 32 CENTS/B -- RAISING TAX PAID COST OF CRUDE TO ABOUT $1.75 AND TOTAL PAYMENTS TO LARG TO ABOUT $1.40/B. AT PRODUCTION RATE OF 700,000 B/D ADDED COST TO OXY WOULD BE ABOUT $82 MILLION ANNUALLY. IF TERMS OF OXY AGREEMENT WERE APPLIED TO ENTIRE LIBYAN INDUSTRY, WE ESTIMATE AVERAGE PAYMENTS TO LARG WOULD RISE BY ABOUT 40 CENTS/B, YIELDING ADDITIONAL $436 MILLION PER YEAR ON AVERAGE PRODUCTION OF 3 MILLION B/D.

3. [redacted]

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4. COMMENT: OCY'S SETTLEMENT, PLUS LARG'S PRODUCTION CONTROLS WHICH ARE LIKELY TO CONTINUE TO LIMIT LIBYA'S OIL OUTPUT TO AROUND 3 MILLION B/D, SEEMS TO HAVE SET IN MOTION EVENTS WHICH WILL LOCK EUROPEAN MARKET PRICES INTO LEVEL ABOVE $2.00/B. LEVEL AT WHICH REALIZED PRICES ULTIMATELY SETTLE DOWN WILL BE AFFECTED BY SUCCESS LARG HAS IN REACHING SETTLEMENT WITH OTHER PRODUCERS ON OXY PATTERN AND EXTENT TO WHICH OTHER PRODUCING COUNTRY GOVERNMENTS CAN INCREASE THEIR REVENUE [redacted] ASSUMPTION THAT OTHER PRODUCING COUNTRIES WILL JOIN LIBYAN AND ALGERIAN EFFORT TO INCREASE REVENUE PER BARREL AT EXPENSE OF CONSUMING COUNTRIES SEEMS SOUND IN LIGHT OF OPEC MEMBERS' VIEW THAT THEY, AS "OWNERS" OF CRUDE, RECEIVE DISPROPORTIONATELY SMALL SHARE OF TOTAL VALUE OF OIL COMPARED TO TAX TAKE OF EUROPEAN GOVERNMENTS. HOWEVER PRICE STRUCTURE EVOLVES, LIBYA SEEMS HEADED TOWARD REPLACING PERSIAN GULF PRODUCERS AS MARGINAL SUPPLIER OF INCREMENTAL OIL TO WESTERN EUROPE BECAUSE OF LARG'S POLICIES ON PRICES AND PRODUCTION LEVELS. B4

5. AMONG OTHER PRODUCERS WITH WHICH WE HAVE TALKED, [redacted] DISSENTS FROM [redacted] VIEW THAT LARG CAN SUCCEED IN FORCING COMPANIES TO INCREASE PRICES AND PASS MOST OF ADDED COST ON TO CONSUMERS. [redacted] HAS YET TO BE CONFRONTED WITH ALTERNATIVES OF REACHING SETTLEMENT OR HAVING ITS EXPORTEX HALTED -- AS OXY APPARENTLY DID AT TIME AGREEMENT WAS REACHED. OXY CONCLUDED THAT, IF IT AND OTHERS WERE SHUT DOWN, EUROPEANS, OUT OF PRESSING NEED, WOULD PURCHASE CRUDE DIRECTLY FROM LARG AND WOULD SUPPLY EXPERTISE NEEDED TO PRODUCE IT. ULTIMATELY, OXY MIGHT RECEIVE SOME COMPENSATION, BUT MEANWHILE IT WOULD HAVE LOST ITS INTERESTS IN LIBYA. FACED WITH THESE ALTERNATIVES, WE THINK MOST INDEPENDENTS IN LIBYA, IF NOT MAJORS, WILL FOLLOW OXY'S LEAD. B4 B4

6. ADDITIONAL COMMENT ON OXY SETTLEMENT AND OUR ESTIMATE

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OF LARG'S. PRESENT NEGOTIATING STRATEGY FOLLOWS BY SEPTEL FOR DEPARTMENT AND SOME OTHER ADDRESSEES. GP-4. PALMER

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